

Tax Savings Strategies for SCR/SNCR Project Planning

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Summary

The installation of a selective catalytic reduction (SCR) system or a selective non-catalytic reduction (SNCR) system and the ancillary support systems is one of the largest capital investment projects a power station will make, or will be a large proportion of a newly constructed station's pollution control equipment costs. The SCR/SNCR project manager must consider the cost savings scenarios related to the project's installation, including available tax reduction and/or exemption scenarios for which the project qualifies. Such pollution control project tax savings strategies can include accelerated federal tax depreciation/rapid amortization and exemptions from real and personal property, sales & use, income, and franchise taxes for the SCR/SNCR system additions.

Internal Revenue Code section 169 (IRC sec. 169) allows for 60-month amortization of certain qualified pollution control facility additions - such as SCR/SNCR projects - to plants placed in service before January 1, 1976. Such amortization requires both state and federal environmental regulatory certification, which when received, can provide an approximate 6% net present value benefit over the life of the project. Defining the qualifying pollution control addition boundaries and careful consideration in preparing the certification request can significantly enhance the project savings benefit available relative to the SCR/SNCR investment.

Most state and local taxing authorities offer exemptions or reductions for capital investments related to pollution control additions - such as SCR/SNCR projects - with many states allowing for the retroactive capture of benefits for projects already placed in service. To claim the exemption, most states require a certification that the equipment in question meets the technical and statutory criteria outlined by the taxing authority. Proactive consideration of eligible sales & use tax exemptions for the pollution control addition can be defined and incorporated within contractor and equipment vendor commercial arrangements during project planning.

All real and personal property tax exemptions available to the project should be pursued during project planning and early construction, as many states tax the cost of a project's property while under construction. Lastly, when available, all income, franchise and miscellaneous project tax credits and exemptions need to be explored for their applicability to the SCR/SNCR project.

Pursuing the exemptions and credits available is often complex and individualized as each taxing authority defines eligible projects and their qualifying costs differently. Currently, SCR/SNCR projects will qualify in statutorily defined exemptions within state and local jurisdictions in most cases.

Therefore, quantifying the benefits available through applicable tax statutes should be considered for these projects.

SCR/SNCR projects present technical and project management challenges; however, tax reduction strategies can provide significant benefit to the overall project costs and should not be overlooked. Optimally, a global tax planning analysis of available SCR/SNCR project tax savings opportunities in the early phases of the project can provide significant economic benefits and reduce the life cycle cost of the SCR/SNCR project installation.